

Testimony of Don Gilbert
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before the
Senate Commerce Committee

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Mr. Chairman, Members of the Committee, Good Morning. My name is Don Gilbert. I am Senior Vice President of Information Technology of the National Retail Federation. Thank you for the opportunity to provide testimony on behalf of the NRF and the retail industry about issues surrounding the Year 2000 problem. I would like to commend Chairman McCain, who has been a long-time friend of the retail industry, for holding this important hearing, and to applaud the Committee for its efforts on the Year 2000 computer problems.

As background, the National Retail Federation is the world's largest retail trade association with membership that includes the leading department, specialty, discount, mass merchandise, Internet, and independent stores, as well as 32 national and 50 state associations. NRF members represent an industry that encompasses more than 1.4 million U.S. retail establishments, employs more than 20 million people, which is about 1 in 5 American workers, and registered 1998 sales of \$2.7 trillion.

I am here today to address the Y2K issue from the retail industry perspective. Let me start by stating that NRF's over-arching objective is to ensure that the U.S. economy continues to progress without disruption caused by any Y2K event. We believe it is in the best interests of this committee to take speedy and reasonable action to ensure that the economy and the well-being of the country

are affected as little as possible by the Year 2000 problem.

History

In February 1997, the National Retail Federation was asked by our members to begin work on the Year 2000 problem. We took that challenge seriously, and have devoted considerable time, staff and resources to addressing the issue. In June of 1997, our Survival 2000 Project was borne from that mandate and that group has met every four to six weeks since. This group is comprised of retail industry information technology specialists, internal auditors, attorneys and logisticians, and currently has 120 members.

To date NRF's Survival 2000 Project has addressed efforts of common interest in an attempt to provide coordination, efficiency and facilitation. The NRF group published a set of Best Practices in 1998 and is in the process of publishing a guideline for Contingency Planning for the retail industry.

From the very first meeting, there was general agreement by this group that it was far too late for legislative solutions. They reasoned that so much work had already been accomplished based on the existing legal framework, that new legislation could force a redefinition of the efforts required, could increase the burden and could invalidate past efforts.

Where We Stand

Today, in February 1999, most of our larger, domestic members are devoting their time to developing their individual contingency and continuity plans and are engaged in final testing of their internal systems. In most cases our larger members have completed remediation of their computer systems, and have surveyed their business partners. In the third quarter of 1999 most of our larger members intend to freeze their internal computer systems to ensure that no new Year 2000 problems are introduced into their environment.

NRF knows that the retail industry has been diligent in its efforts to address the Year 2000 event, and we're confident that while there may be sporadic inconveniences, we are not likely to see catastrophic failure. During the past two years of effort we have worked under the assumption that the legal framework would remain unchanged. Because of the unique nature of the retail industry, we recognized that our members could find themselves on either side of any legal dispute. For example, as sellers of consumer electronics they might be forced to deal with issues like product liability or they might also find themselves as plaintiffs when dealing with suppliers of goods and services.

I earlier commented that NRF's Survival 2000 Project group has been

consistently opposed to legislation regarding the Year 2000 event. However, with a number of states now enacting their own legislation on Y2K, the rules have begun to change. That said, NRF recognizes that there may now be a need for speedy legislation that is fair to all, minimizes the economic impact of litigation, encourages remediation, and provides a consistent set of rules across the country.

Our economy and the retail industry will only remain strong as long as companies are encouraged to correct their Year 2000 problems not by some legislative scheme that establishes incentives for companies to delay action, to avoid remediation or to take their claims to court. NRF would vigorously oppose that kind of rule change.

NRF's Expectations

From the beginning, NRF's objective has been to facilitate specific industry solutions. In order to accomplish that goal, we have engaged in risk assessment and developed industry-wide contingency plans. In cases where there is little information about a service provider a higher risk is assigned.

Based on two years of risk assessment and close work with our members, NRF is confident that most larger, domestic retail firms have taken the necessary steps to ensure their successful transition through the Year 2000 event. Moreover,

our experience tells us that while most small companies may suffer isolated problems, they can probably survive by handling their work manually. It is mid-sized companies that are probably at the greatest risk for Y2K because they have grown to the stage where they must use technology but probably have the fewest resources to address problems.

Because NRF has been so involved in Year 2000 issues for the past two years, we have developed an extensive network of contacts both within and outside our industry, in the U.S. and internationally. NRF's experience has led us to the conclusion that Not-for-Profit entities like governments should generally be assigned a higher risk, and foreign countries are less likely to be Y2K compliant than the United States.

Because much of the merchandise that our members sell is imported from abroad, the retail industry's greatest concern is the global marketplace. Based on the information we have received so far, we anticipate that there could be supply chain disruptions in developing nations. Our members are aware of this situation and are developing plans to address any potential supply chain disruptions. It is possible that international legal issues could surpass those we find here at home, especially for the retail industry.

Conclusion

NRF's imperative is to ensure that the U.S. economy remains strong and that whatever can be done to facilitate a smooth transition across the Year 2000 event is done carefully, effectively and efficiently. NRF looks forward to working with this Committee toward that important objective.

I want to thank you for the opportunity to present this testimony today. I would be happy to respond to your questions.